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IMF says Lebanon requests technical help on economy, debt

By Reuters Staff

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BEIRUT (Reuters) - Lebanon on Wednesday formally requested the International Monetary Fund's technical help in shoring up its economy, a move that a senior government source said would include the fund's aid in drafting a plan to avert financial collapse.

FILE PHOTO: The International Monetary Fund (IMF) logo is seen outside the headquarters building in Washington, U.S., as IMF Managing Director Christine Lagarde meets with Argentine Treasury Minister Nicolas Dujovne September 4, 2018. REUTERS/Yuri Gripas/File Photo

As Lebanon's government grapples with an economic crisis that has fueled increasingly violent protests, the heavily indebted country must urgently decide on how to deal with fast-approaching debt payments, including a \$1.2 billion Eurobond due on March 9.

"We have recently received a request from the Lebanese authorities to offer advice and technical expertise on the macroeconomic challenges facing the economy," IMF spokesman Gerry Rice said in a statement.

He said the IMF regularly provides advice to its member countries on policies and reforms to restore economic stability and promote growth. The IMF statement made no mention of financial assistance for Lebanon.

"Any decisions on debt are the authorities', to be made in consultation with their own legal and financial advisers," Rice added.

As part of the request, the senior government source said Lebanon asked the IMF to send a team to Beirut to help draw up a comprehensive plan to avoid default.

The financial crisis, worse than any Lebanon endured in its 1975-90 civil war, came to a head last year as slowing capital inflows led to a liquidity crunch and demonstrations erupted against the ruling elite.

Deciding how to handle Lebanon's next sovereign debt maturity is a top priority for Prime Minister Hassan Diab's government, which won a vote of confidence in Parliament on Tuesday.

The IMF technical team is expected to arrive in Beirut in the next few days to help draw up an economic, financial and monetary plan, said the senior government source, adding that the request for help was made by phone on Wednesday.

It was not immediately clear whether the technical assistance would involve a plan for debt restructuring. Some politicians have expressed support for consulting the IMF before any plan is put forward to manage the debt payments.

A decision on the March Eurobond was expected in Beirut on Thursday at a meeting between the president, central bank governor, finance minister and others, a second government source said.

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Lebanon was seeking advice on the March Eurobond "amid concerns that any reprofiling of Lebanon's debt should be conducted in an orderly way to avoid damaging the country's banking system," the second government source said.

Lebanese banks holding the bulk of the sovereign debt have piled pressure on the state to pay the March Eurobond on time. The banks have in recent months imposed tough controls on hard currency amid dwindling reserves and fears of capital flight.

In London, two of Lebanon's international corporate creditors, Greylock Capital and Mangart Advisors, said they and others had organized an "informal discussion group" to begin evaluating options.

Another source familiar with the matter said that “since the government gave the nod for IMF technical help, the general mood is toward doing an orderly restructuring”.

“The feeling here is that the government would like a restructuring - not to pay - and to set terms on how to pay and when to pay,” a fourth source familiar with the matter said.

Senior political sources said the major parties that back the Diab government, notably the heavily armed Hezbollah, favored reaching a deal to avoid paying the debt as Lebanon needed its foreign currency to pay for essential imports.

DECADES OF CORRUPTION

The crisis is rooted in decades of state corruption and bad governance that have landed Lebanon with one of the world’s heaviest public debt burdens.

The banking association said it was necessary to repay the Eurobond on time to maintain Lebanon’s place and relationships in global financial markets. It said the short time remaining before the March 9 maturity did not allow for preparation and “competent handling”, and called for the public debt to be tackled right after the March payment.

Diab on Tuesday described the government’s task as a “suicide mission”. The priority would be preserving foreign currency reserves for critical imports, and “all possibilities” were under study for dealing with Eurobonds maturing this year.

Even as it seeks IMF technical help, comments attributed to Parliament Speaker Nabih Berri this week indicated Lebanon’s opposition to a full IMF program, whose tough conditions the country would not be able to bear.

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